Proactive Cooperative Banks in Local Development: socio-economic problem solving, growth and community building

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1. Introduction

This short paper, in relation to Theme 2: Identifying and Promoting Good Practices and Addressing Internal Challenges, sets out selected observations and findings related to previous investigation of the role of cooperative finance and agricultural cooperatives in local development in Almería, Spain, home to Spain’s largest cooperative bank.2 As well it refers to observations within the context of a current project (the “Project”) entitled “Cooperative/Alternative Bank Strategies for Social-Economic Problem Solving: Supporting Social Enterprise” involving the University of Almería, Spain (as coordinator), the European Research Institute in Cooperative and Social Enterprises (EURICSE), Trento, Italy and Erasmus University, The Netherlands.3 The Project investigates the strategies cooperative banks (and other forms of alternative finance) could/do use to address community socio-economic challenges through the financing and promotion of cooperatives and social enterprises.4

The main research themes may be categorised as follows:

- **What strategies do cooperative (and alternative banks) employ to meet the social/economic challenges within the communities in which they operate?**
- **How do they identify such challenges and interact with interested stakeholders?**
- **How do they support cooperatives and other forms of social enterprise?**
- **Why are cooperative (and alternative banks) suited to meet such challenges (as opposed to traditional shareholder owned, for-profit banks?)**

While there is a clear “management” or “best practices” focus taken by the project, in order to answer the above questions in a more than superficial manner we also rely on historical analysis (economic/political/social) and consider such cooperative/alternative bank strategies in light of present day policies and environments. A focus on the extra-financial role of such entities is central to the investigation and is carried out through case studies.

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3 Researchers from EURICSE include Giulia Galera and Jacopo Sforzi and from Erasmus University, Georgina Gomez. See “Cooperative/Alternative Bank Strategies for Social-Economic Problem Solving: Supporting Social Enterprise” (Giagnocavo, et al, (2011)-contact first author for paper).

4 For the purpose of our study, “social enterprise” is given a purposive, not legal, definition.
Research into the relationships among different types of actors in such process (e.g. cooperative banks as well as other cooperatives, associations, networks, second tier entities, etc.) in order to understand the process of promoting sustainable community development is integral to the Project. In addition, there is a strong emphasis on cooperatives and social enterprises as community-based and -originated “problem-solvers” (Borzaga and Galera, 2009; Borzaga, Galera and Nogales, 2008; Borzaga and Defourny, 2001). In a global context, this issue is particularly relevant given limited government resources to deal with pressing social and economic issues.

The comparative case method highlights not only innovation, best practices and knowledge sharing between financial entities and between any given financial entity and related community/social enterprise, but also serves to emphasis that a “one size fits all” analysis devoid of context and an acknowledgement of particular communities/organizational form is not appropriate. In addition, the comparison of “alternative” banks may serve cooperative banks well, as the latter have at times used the argument of “necessity” to defend the mimicking of shareholder banks. Such argument is contested in light of the success of various alternative banks.

We use three European countries as examples of the diversity of cooperative/alternative bank forms as well as to exhibit the varying nature of social and economic challenges. In Italy the focus is on cooperative banks, in Spain on both cooperative and Cajas de Ahorros (in essence, savings banks, hereinafter, “Cajas”) and in Holland on both cooperative and alternative (or “ethical”) banks.

As well, it should be kept in mind that each jurisdiction has a different approach to what constitutes “social enterprise”. For this reason, we use the term not in its legislatively defined sense (such as in Italy) but rather, as a way to refer to economic activity that has not only an economic purpose, but an identified social goal which is related to its economic activity. For avoidance of doubt, cooperatives are included.

In the preliminary stage of the Project we investigated the historical approach of the three different jurisdictions and set out the different avenues and strategies that cooperative and alternative banks have used in acting as a catalyst for social/economic and environmental local development (in the case of Spain, this was done at length in Giagnocavo, et.al. (2010)). Non-traditional financing entities assume various forms, based on both the historical circumstances and current challenges facing the different communities.5

In the case of Spain, there has been a significant consolidation of the cooperative bank sector as well as in various Cajas. This consolidation, in part strategic and in part as a result of government policy, creates a situation that is quite distinct from the original notion of small, local cooperatives. While perhaps creating stability and allowing economies of scale and access to more funds6, it also creates a new dynamic between credit cooperatives and their “communities” (as well as raising the question of what exactly, constitutes a community).7

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5 See Giagnocavo, et al. (2011) and Giagnocavo, et al. (2010). In the management/business based approach which will be used, the actual “how” of cooperative/social finance and social enterprise interaction will be addressed. Of particular importance will be the inclusion of the “user” side of finance—input from and emphasis on the perspective of representatives of the local community, social collectives and enterprises themselves and the social-economic issues which they identify.

6 Such access to funds is fundamental to support capital intensive cooperative projects which have the capacity to significantly alter local economic systems and power and market dynamics.

7 While many valid arguments exist for smaller scale banks and their community bonds, the growth pattern witnessed in cooperative banks such as Cajamar (like Rabobank in the Netherlands) has allowed the growth and ensured the survival of the cooperative agricultural sector and local production system such that it can compete against shareholder owned agribusiness companies, all the while maintaining cooperative benefits for its thousands
In contrast Italy has a cooperative credit system which imposes territorial limits, thus relying on a consortium model in order to meet local challenges. Holland, which is home to the largest cooperative bank, Rabobank, also has an active “ethical” bank sector. In contrast to Italy, territorial limits are not necessarily a defining feature of the financial entity’s activities or strategy.

Three other relevant threads run through the Project and prior investigation. First, notions of “community” and “territory” are reconsidered, questioning whether geography delineates communities or whether communities can be constructed through economic activity aided by cooperative finance (thus it is the community which delineates the territory). In the case of alternative banks, shared ethical commitments are also capable of community building. The aforementioned thread is related to a second theme which is that of the need to reconcile the financial necessities of such community and the growth strategies of the cooperative/alternative bank, particularly in light of competitive pressure and increasingly globalised economies. Finally, a social/economic approach (within the confines of environmental sustainability) is re-emphasised as opposed to a trend towards “corporate social responsibility”.

1.1 Role of Cooperative Banks in Local Development

Historically, cooperatives banks often provided more than just credit--they were proactive in encouraging business and social development and often filled a civil society vacuum. They provided institutional support, financed necessary infrastructure and research and development, encouraged training and education and eased the transition into international markets and in some cases different political regimes (Giagnocavo, et al., 2010). Using their relational capital to spread information, knowledge and innovations as well as values such as trust and cooperation (Cesarini et al., 1997; Bongini et al., 2007; Borzaga and Tortia, 2004), they are strategically placed to facilitate access to finance and to value the potential of local enterprises and foster relationships not only among them but also to create networks of inter-institutional relationships. The importance of the role of cooperative banks as “catalysts for economic and social cohesion” was noted in a 2007 EACB study (a general survey) and within the ILO Sustainable Enterprise Programme (2009).

1.2 Current Challenges

While the origins of cooperative banks, firmly “embedded” in their local communities were based on solving local social-economic issues, current cooperative/alternative banks’ strategies for dealing with contemporary challenges must take into account new circumstances, including, but not limited to:

- internally motivated consolidation and/or growth, thus requiring a rethinking of “local community” not necessarily based on territory and a re-defined role for the cooperative bank (or in the case of alternative banks, a defining of a new or revised community)

- externally motivated consolidation and/or growth due to political or external economic pressures, thereby resulting in the task of creating cohesion, mission coherence and the building of a community out of disparate areas

- the fact that certain “local” challenges and/or social enterprises require capital intensive solutions (i.e. “micro-credits” are not enough)

of small members and family farms. Paradoxically, in order to maintain such “local” commitment, growth beyond territory was necessary.

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8 See Giagnocavo, et al., (2011) regarding the trend towards corporate social responsibility in cooperative banks.
• community needs and relevant challenges change over time and may require a different strategy (e.g. demographic shifts in the community, innovations in traditional areas like agriculture and the transformation from “peasant” to “agricultural entrepreneur” renewable energy, etc.). New areas of investment, services and technologies require increased skills and capacity on the part of the finance entity and create risk scenarios which must be taken into account

• a volatile global economy at times requires lighting speed adaptations and “scaling up” within a short space of time, and at the same time, makes it difficult for communities to control their own destiny, held “hostage” as they are by external markets and policies

• different social demands related to social cohesion may not be within the traditional activities of the community or bank, but as part of the “local community” require solutions

1.3 Re-emphasis on social-economic challenges (including environmental) and moving away from “corporate social responsibility” mind-set

Given the demands of the above social and economic changes, in some cases, cooperative banks appear to be imitating commercial banks (and the established cooperatives with whom they “grew up” appear to be mimicking investor owned firms) (Soler Tormo, 2002; Palomo Zurdo and Sanchís Palacio, 2008, 2010; Campos Climent and Sanchís Palacio, 2009). The consolidation of cooperative banks has made the tendency to act like a traditional commercial bank more prevalent. Many cooperative banks scholars have turned to more “formal” and less substantive analysis of cooperative and alternative bank activity and impact—looking more to internal governance issues and “corporate social responsibility” initiatives, rather than the interaction between cooperative/alternative banks and both new and existing cooperatives and social enterprises as a method to solve local community problems.9

Corporate social responsibility is solidly rooted in the “charity” model (as opposed to the local development model which seeks a shift in economic equality and empowerment). While transparency and good governance are not unimportant for cooperative and alternative banks, they are not substitutes for the inherent social-economic agenda of such entities. By virtue of their very nature, cooperative banks should be “socially responsible” throughout all their activities, yet more and more it is evident that CSR is concept that is being divorced from (or used as a substitute for) the goal of local sustainable development and the challenges that face communities (Melián Navarro, et.al, 2006).10

The Project and prior investigation re-emphasise such focus on socio-economic challenges and development, keeping in mind the new challenges and the landscape in which cooperative and alternative

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10 At the end of the nineties it was common to find analyses of the role of cooperative banks in local development and their social efficiency. This topic seems to have lost interest in recent years, and now there are many studies that highlight the importance of socially responsible products for the image of the company (Carrasco, 2005; Ibarroondo Dávila and Sánchez Fernández, 2005) and the need of establishing ethical codes (Belhouari et. al., 2005; Mendizábal Zubelda et. al., 2008), pointing to the relationship between the cooperative principles and RSC as the main reason for introducing it into the strategy of such organizations. While these elements are relevant in order to maintain their reputation, they are not representative of the social objective of credit cooperatives.
banks operate, while at the same time moving beyond the common (and valid) arguments of territorial proximity and the building of “trust” relationships.

2. Case Studies in Spain, Italy and Holland

2.1 Spain

While overall, credit cooperatives did not have the same success or autonomy in Spain as elsewhere in Europe, what is important to note is that in those areas where there was abject poverty and both social and financial exclusion, credit cooperatives were a crucial tool in overcoming severe socio-economic challenges (Martínez, 2005; Palomo Zurdo et. al., 2007; Giagnocavo, et. al., 2010).[11]

In addition, within the financial entities with a “social” character in Spain, Cajas (savings banks) play an important role. They are non profits whose government structure is made up of diverse stakeholders, including public administrations, unions, deposit holders and social economy entities. They define their mission as the fight against social exclusion and the creation of both economic and social wellbeing through their social works. The embeddedness in their territory has been a traditional feature as has the focus on family and small businesses.

Recently (and particularly at the time of this writing) there has been a preoccupation with the solvency of certain Cajas in Spain, leading them to extend their areas of activity and safeguard more in their capital reserves, thus reducing the amount available for social works. Government enforced mergers and the threat of conversion into banks (to allow a public offering of shares) or ultimately nationalization, signifies a time of instability and uncertainty for the future strategies of such entities, putting at risk their social function.

28.57% of the Spanish credit entities are credit cooperatives and 16.07% are Cajas de Ahorro, representing 44.64%. However, many of the cooperatives are of small size and importance within the sector as a whole. Their relative weight within the sector as a whole, as a percentage of consolidated balance are 4% for credit cooperatives, 43.7% for Cajas (although some of the Cajas are very large and operate almost as traditional banks) and 52.3% for traditional banks.

Financial exclusion is increasingly a problem in Spain (Campos Climent and Sanchís Palacio, 2009) and when banks focus on those groups which are more economically profitable, they contribute to such financial exclusion. In this aspect, Cajas and credit cooperatives have been noticeable in their provision of financial services to areas and segments of the population which would otherwise be excluded (Belmonte Ureña and Plaza Úbeda, 2008), particularly with respect to women, immigrants, young people and the unemployed. However, with certain growth strategies anchored in the quest for competitiveness, the temptation to bank those that are profitable leaves the disadvantaged by the wayside. For this reason, the challenge for credit cooperatives and Cajas is to approach the challenges that communities face and to help create inclusive economic solutions, all the while acting as a catalyst to create new economic “success stories” and sustainable, productive economies.

In Spain, we have identified the following specific groups in which to track the relationship with Cajas and credit cooperatives: social enterprises, immigrants, women, the “Gitano” collective, SMEs and Youth. From a social challenges point of view, energy, sustainable environmental practices, innovations in agriculture and fishing and overall, high unemployment, particularly in the specific groups mentioned above. The specific results related to these groups/issues do not fit within the confines of this paper and

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will be communicated at a later stage. In addition, while our studies include Cajasol, a Caja de Ahorros (a

private credit entity with the legal form of non-profit foundation) which is among the largest 12 entities in the sector12, with more than 2, 8 million clients, the nature of this paper does not allow more detail. (Further initial information may be found in Giagnocavo, et al. (2011)).

From the Spanish cooperative perspective, an emblematic case involves the evolution of Almería, a province of Southern Spain, which is of particular interest in demonstrating the role of cooperative finance in social, economic and institutional development (Giagnocavo, et al. 2010). The local cooperative bank, Cajamar, now the largest in Spain (and among the top 20 Spanish financial institutions), proved to be a proactive force in developing economic activity and technological innovation, founding and organizing cooperative institutions and networks, filling a civil society vacuum and playing a cohesive function in the creation of a cooperative community in the midst of a dictatorship.

It began in the mid 60s in Almería, one of the poorest provinces of Spain, during the brutal, poverty ridden years of Franco. Its roots are intricately linked with and in large part responsible for the intensive cooperative agricultural sector of the region. Today, it is ranked within the top third of Spain’s provinces, with wealth creation widely spread throughout its population. The average land holding, still, of an agricultural enterprise is a mere 1.5 hectares (approx. 3.75 acres), most owned by families or SMEs who join agricultural cooperatives.

More recently Almería is gaining prominence for its integrated approach to agriculture which includes careful use of resources (particularly water), bio-control instead of pesticides, increased production based on innovative technology and a focus on ecological product. These innovations are largely due to the direct investment and R&D of the rural cooperative bank and the related cooperative institutions. Of note is the association of largely cooperative producer organisations, Coexphal, which represents 65% of the sector. The Almería model is known for its development of a cooperative supported local production system, such system comprising not only agricultural activity but related “spin off” businesses. Its agricultural cooperative model based on small holdings is studied as a model for China, South America, Eastern Europe, Africa, etc. As the sector has transformed and modernized through various distinct phases, the cooperative bank and Coexphal continue to finance and promote cooperative agricultural innovation in terms of bio-control, water resources and irrigation, greenhouse engineering, food safety, organics, sustainable environmental practices and social programs (social inclusion of immigrant workers, school nutrition education, marginalized workers, rural women, etc.). Coexphal plays a key role in encouraging the concentration/integration within the cooperative sector, thus maintaining more control of pricing and gaining more market power.

As well, innovative strategic decisions on the part of the cooperative bank have been taken in order to continue its local role, as well as maintaining its strength and pursuing growth (in keeping with the significance of local context for innovative action in increasingly globalised economic integration). Although a case has often been made for cooperative finance based on information and transaction costs efficiencies (e.g. that monitoring is easier and knowledge more implicit or community/trust based, thus the risk of “incompleteness” of both information and contract is reduced), in this case the cooperative bank’s role went far beyond a relationship-based supply of credit; rather it was a constant source of and impetus for sustainable innovation, both social and technical and a co-creator of development.13

13 A significant result that flows from conceiving of the cooperative bank as more than just a local source of capital avoids several problems inherent in both territorial and the economics of information approaches; That is, if the limited control-based territorial model, premised as it is on the economics of information and transaction costs efficiencies based on proximity, is adopted, any advantage that cooperative banks may be seen to have disappears as soon as the cooperative bank experiences significant growth or goes beyond its territory (even though growth may actually be key to capturing more funds to finance the original territory’s financing needs). By approaching the
has also assumed a role that goes well beyond representation and marketing and provides not only scientific and technical support, but also support in areas such as immigration, integration of the sector and other services that allow the producers to utilize a full range of expertise. More importantly, it serves as a method of communication for the farmers.

Due to government initiatives which dictated consolidations within the sector (SIP - Institutional System of Protection) its ability to maintain social cohesion, which was a given within the area of Almería, is yet to be tested.

2.2 The Netherlands

In the Project, three organisations are under study in The Netherlands. Rabobank Group cooperative bank, ASN Bank, and Triodos Bank. The latter two may be seen as socially responsible or ethical finance (ASN being a worker bank and Triodos being a foundation using a depository receipt structure) and they concentrate their funding on specific areas and activities which are required to meet social/ethical criteria. While they are not cooperative banks, what is of great interest is the creation of ethical finance communities that go beyond (and in some cases, barely are related to) geographic scope and the explicit view of capital as having the potential to achieve social and environmentally sustainable goals. It should be noted though that this does not mean that ordinary credit appraisals are not necessary-this occurs after the “ethical” test has been satisfied.

As well, the process of identification of social-economic challenges and the funding necessities of the same demonstrate that such banks have been successful at harnessing stakeholder involvement. Rabobank, being predominantly an agricultural bank has also expanded well beyond what might be considered “local” and truly has a global reach.

In the case of Rabobank, after some years of disorientation, it has re-committed itself to the cooperative model and although focused on a primary sector (agriculture), has managed to maintain a global presence as a full service bank.

As pointed out in Giagnocavo, et.al. (2011) there is no concept of “social enterprise” in the Netherlands as in Italy or Spain. Instead, the focus is on meeting social challenges. In the Project we refer to social exclusion and environmental sustainability as the most pressing challenges in which such financial entities play a role.

4.1. Italy

The Project researches cooperative banks within the province of Trentino in Trentino-Alto Adige region in northeast Italy, with 50% of its half million inhabitants being cooperative members. Trentino-Alto Adige is
the most important Italian region in terms of national representation of Cooperative Credit branches (54.8%) as well as in terms of the absolute number of cooperatives. Italy’s cooperative banks have a close relationship with their territory and a low level of integration. The high number of SMEs (98% of Italian businesses), including but not limited to cooperatives, demand particular solutions. The Cooperative Credit Banks (“CCB”), formerly agricultural credit banks (Raiffeisen model) and the Popular Bank (Schulze Delitzsch model), are intensely local banks.

Cooperative banks play a fundamental role in the Italian economy and in recent years have demonstrated an ability to respond to socio-economic challenges presented by increasingly complex globalized financial markets, whilst maintaining strong ties with the local territory. In the Project, empirical research is described evidencing their role in sustaining the SMEs that constitute the fundamental structure of the Italian productive system, as well as the tourist and agricultural sectors (Fortis, 2009). As well, evidence (see e.g.: Ferri et al, 2005, Fortis, 2008, Tarantola, 2009) of the positive influence that cooperative banks have had on local economic development through the financing of local entrepreneurial initiative is set out. As in the case of Spain, reference is made to the industrial districts (see Alessandrini and Zazzaro, 2009) and the close institutional ties between the various actors.

Three types of cooperatives operating in Trentino are focused on in the Project: Cooperative Banks (Casse Rurali), Social Cooperatives and Housing Cooperatives. The Casse Rurali manage 65% of savings in Trentino and guarantee access to credit to all of the people who collectively make up the economic fabric of Trentino (families, SMEs, associations, non-profit organizations, etc.). Revenues are required to be reinvested locally with at least 95% going towards sustaining and financing local economic development. A “virtuous” economic circle is created in which small and micro local actors are included in economic development.

Social Cooperatives are relatively new cooperatives where, particular treatment is given to social cooperatives that have two main objectives: (1) service provision, in collaboration with local government, to the socially disadvantaged and; (2) work integration. The region of Trentino-Alto Adige implemented a law in 1988 regarding social solidarity cooperatives, which served as the base for the national legislature, that in was enacted in 1991 regulating the activities of social cooperatives. Housing Cooperatives utilize a combination of the member fees paid into the cooperative and the favorable mortgage arrangements and subsidies provided to cooperatives by the Autonomous Province of Trento.

5. Conclusion

Based on our initial investigations we note that with respect to the study of cooperative and alternative banks in Spain, Italy and Holland, there are/is:

• different paths and forms of alternative finance based on both political and economic history

• diverse expressions of social enterprise and local development based on both historical and legislative factors

• the necessity for the evolution of the role and activities of a cooperative/alternative bank in the development of its community

• need to adapt to new challenges—met most successfully with stakeholder participation

• evidence that cooperative/alternative banks were/are pro-active agents of technological, economic and social innovation, fulfilling a central institutional role in the contribution to a civil society

Such entities have done so by carrying out the following strategies:
• committing itself financially and socially to a vulnerable community such that it had to make sure that the economic activities of its members were worthwhile funding, thus implicating itself in a profound way in the economic and social activities of the community

• encouraging the establishment of a cooperative economic “fabric” through the enabling and set up of cooperatives, associations, 2nd tier entities and the coordination with family/SME based enterprise

• building on but going far beyond relationship-based finance through pro-active production and dissemination of technical, economic and social knowledge and playing an active role in the incorporation of the same

• shifting and transforming individual economic risk (including technological and experimental risk) to community risk, thus involving not only the cooperative/alternative bank, but the community in shared success

• assuming the role of intermediating for community members (and navigating market, legislative and political changes)

• pursuing organic growth strategies in order to sustain innovation and sector growth amongst its members and as well, to diversify its activities beyond local specialization (both sector and territorial) thus protecting against undue potentially volatile concentration

• pursuing strategic growth strategies in response to government imposed integration in order to maintain its strength both inside and outside its original territory and countering such “forced” consolidation with cohesion strategies.

Above all, the most successful strategies have been a result of maintaining a commitment to the ethical and social/environmental/economic function of capital.

We have also found that further research is needed in:

• leveraging knowledge of stakeholders in identifying societal challenges (good example in ethical banks that cooperative entities could learn from)

• measuring success beyond economic considerations

• implementation of policies and initiatives to define local challenges

• how to maintain community involvement during processes of growth

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